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Annual Report 1974

## BOARD OF DIRECTORS

D.L. BALISON	President and Chief Executive Officer, Balco Industries Ltd., Kamloops, B.C.
P.J.G. BENTLEY	President, Canadian Forest Products Ltd., Vancouver, B.C.
J.G. CHASTON	Chairman of the Board, Pemberton Securities Ltd., Vancouver, B.C.
R.L. CLIFF	Chairman of the Board, Inland Natural Gas Co., Ltd., Vancouver, B.C.
J.R. LONGSTAFFE	Executive Vice President, Canadian Forest Products Ltd., Vancouver, B.C.
L.W. MAYES	President, Pacific Overland Timber Ltd., Vancouver, B.C.
J.A. ROBINSON	Vice President, Coast Wood Products Manufacturing, Canadian Forest Products Ltd., Vancouver, B.C.
W.M. ROBSON	Vice President, Marketing and Sales, Wood Products, Canadian Forest Products Ltd., Vancouver, B.C.

## OFFICERS OF THE COMPANY

D.L. BALISON	President and Chief Executive Officer, Kamloops, B.C.
T.G. JEANES	Vice President Woodlands, Kamloops, B.C.
L.H. RODRIGUE	Vice President Production, Kamloops, B.C.
G.W. MARTIN	Vice President Sales, Kamloops, B.C.
J.Y. OBANA	Treasurer, Kamloops, B.C.
R.F. WEINMAN	Secretary, Vancouver, B.C.

## BUSINESS LOCATIONS

COMPANY OFFICES	R.R. 3, Kamloops, B.C. V2C 5K1
AUDITORS	Rudd, Goold & Elliott, Chartered Accountants, Kamloops, B.C.
SOLICITORS	Rogers, Hunter & Company, Kamloops, B.C.
BANKERS	Canadian Imperial Bank of Commerce, Kamloops, B.C.
TRANSFER AGENT AND REGISTRAR	Montreal Trust Company, Vancouver, B.C.
WHOLLY-OWNED SUBSIDIARIES	Bal Crete Construction Materials Ltd., Kamloops, B.C.; Balco Building Supplies Ltd., Kamloops, B.C.; Interior Block Manufacturing (1964) Ltd., Kamloops, B.C.; Mutual Building Supplies Ltd., Kamloops, B.C.; Waymark Services Ltd., Kamloops, B.C.

## AFFILIATED COMPANY ANNUAL GENERAL MEETING

Pacific Overland Timber Ltd., Vancouver, B.C.  
WEDNESDAY, APRIL 30, 1975 at 5:00 p.m. in the Canadian Inn, Kamloops, B.C.

## CONTENTS

Five Year Financial Highlights .....	1
Directors' Report .....	2
1974 in Review .....	2
Subsidiaries .....	3
Wood Products Marketing .....	4
Financial .....	4
Dividends .....	5
Outlook for 1975 .....	5
Auditors' Report .....	7
Financial Statements .....	8

## FIVE YEAR FINANCIAL HIGHLIGHTS

FOR THE YEAR (IN \$000)	1974	1973	1972	1971	1970
Sales	\$14,792	\$19,360	\$13,945	\$9,734	\$5,702
Earnings (loss)	(424)	1,860	1,280	296	(352)
Earnings (loss), as % of sales	(2.9)%	9.6%	9.2%	3.0%	(6.2)%
Depreciation & amortization	646	639	518	454	356
Cash flow	440	2,830	1,930	789	103
Capital expenditures	894	2,075	996	464	1,642
Dividends paid	252	256	182	—	—
<b>PER SHARE AMOUNTS</b>					
Earnings (loss) — basic	\$ (.42)	\$ 1.85	\$ 1.27	\$ .30	\$ (.37)
Cash flow	.44	2.81	1.92	.79	.11
Dividends paid	.25	.25	.15	—	—
Shareholders' equity	4.08	4.75	3.15	2.09	1.60
<b>YEAR END POSITION (IN \$000)</b>					
Working capital	\$ 535	\$ 1,556	\$ 736	\$ 97	\$ 103
Long-term debt including current installments	1,490	2,301	1,658	1,507	1,726
Shareholders' equity	4,101	4,777	3,173	2,075	1,530
Common shares outstanding (in 000's shares)	1,006	1,006	1,006	1,006	956

NOTE: The above amounts have been restated as required to reflect accounting changes and the 1973 two for one share split; earnings are before extraordinary items.

**balco**  
**INDUSTRIES LTD**  
& SUBSIDIARY COMPANIES

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## DIRECTORS' REPORT TO THE SHAREHOLDERS

### 1974 IN REVIEW

Depressed lumber and plywood markets in the midst of an inflationary economy resulted in an unfavourable earnings record for Balco Industries Ltd. over the 12 months ended November 30, 1974. In marked contrast to record 1973 net earnings of \$1,859,878, the Company experienced a 1974 net loss amounting to \$424,446, and total sales in 1974 declined by 24 percent from 1973 levels.

The unfavourable 1974 financial results were due in part to substantial cost increases experienced in many areas during the year. For example, the cost of energy, fuels, and supplies of all kinds escalated rapidly owing to inflation and shortages. Also, a major increase in wage costs resulted from the mid-summer contract settlement with the International Woodworkers of America. The impact of this major cost item is illustrated by the fact that despite a 15 percent decrease in average employment in 1974 as compared to 1973, total wages, benefits, and salaries in 1974 did not decline at all from the 1973 level of \$4.6 million.

The above noted trend of increasing costs was offset to some extent by a vigorous cost cutting program implemented during the year, and by lower stumpage and royalty payments to the government of British

Columbia during the last quarter. However, the reduction in these payments, although welcome, came too late and was not commensurate with the \$4.2 million decrease in lumber and plywood sales revenues for 1974 as compared to 1973.

The other major factor contributing to the poor profit results during 1974 was a very unfavourable market situation, particularly for lumber. Except for brief rallies in the spring, the Company's major U.S. lumber markets were soft during most of the year, and average prices dropped to extremely low levels. The principal factors underlying this weakness were the record high levels of mortgage interest rates induced by inflation, and the consequent reductions in residential building and other construction activity.

The effect of the poor market was compounded by lumber rail car shortages which created difficulties in moving lumber products to market, especially during the brief periods of somewhat improved lumber prices. As a result, 1974 lumber shipments totalled



only 57,000 Mfbm, substantially below normal levels of approximately 70,000 Mfbm.

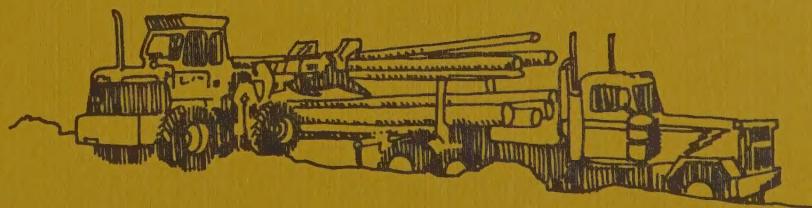
Fortunately, demand and prices for byproducts, particularly pulp chips, were strong during 1974 resulting in higher byproduct revenues which reduced somewhat the impact of the poor lumber markets.

As well, the situation in respect to plywood was more favourable than that for lumber. During the first half, the Canadian plywood market held firm at satisfactory price levels owing to a more buoyant economic situation in Canada than in the United States. Also, no difficulties were experienced in shipping plywood products to market. However, over the second half the plywood market eased considerably, although not as drastically as the traditionally more volatile lumber market. Nevertheless, plywood shipments for the year totalled only 311 million square feet (1/16), equivalent to about 75 percent of normal production capacity.

Logging operations were carried out on a somewhat reduced scale during 1974, in keeping with the lower levels of lumber and plywood production. Reforestation activities for the year included the planting of over one third of a million seedlings, while other aspects of forest regeneration and environmental control proceeded most satisfactorily. Construction of logging roads during the year also proceeded well and the Company continues to have an ample supply of timber fully developed and available for logging. Recently, arrangements were made so that medical, dental, and other group benefits will now be universally available to all woodlands workers who indirectly derive employment from Balco.

#### SUBSIDIARIES

The performance of our subsidiaries was mixed during 1974. Pacific Overland Timber Ltd., a wholesale lumber company owned fifty percent by Balco, was adversely affected by the weak demand for lumber and by the rail car shortages which restricted the volume of lumber for sale. Consequently, Pacific Overland's sales volume was well down from expectations. As a result of staff reductions and various other cost cutting measures, however, a modest profit was achieved. Waymark Services Ltd., which provides refuelling, servicing, and restaurant facilities to truckers and the public, experienced a very satisfactory year during 1974 and exceeded profit targets by a substantial margin.



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## DIRECTORS' REPORT TO THE SHAREHOLDERS (cont.)

As reported previously, the plant, equipment, and inventories of two subsidiaries were sold on favourable terms in early 1974. These subsidiaries, Bal Crete Construction Materials Ltd. and Interior Block Manufacturing (1964) Ltd., had been engaged in the businesses of concrete block manufacturing and building materials retail sales. This divestment was made to allow a greater concentration of management attention of the forest products aspects of our business, and in retrospect the divestment has proved beneficial to the financial position of the Company as well.

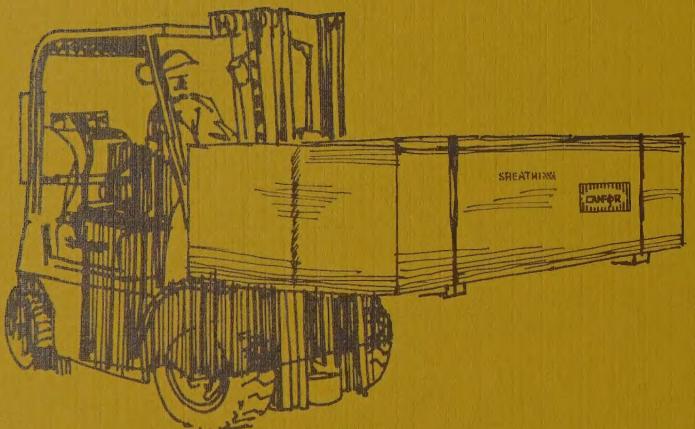
### WOOD PRODUCTS MARKETING

Balco's association with Canadian Products Forest Ltd. continued to provide benefits during 1974. The availability of Canfor's extensive Canadian marketing facilities was most helpful in minimizing the adverse impact of the weak plywood markets on Balco. Near the end of the year, Balco arranged to have Canadian Forest Products Ltd. assume responsibility for the sale of Balco's lumber products under the terms of an annual sales agreement. Through its sizeable sales staff, transportation expertise, and broad customer base, Canfor has already enhanced Balco's lumber sales results. In addition, Balco will have access through Canfor to its own fleet of leased rail cars which hopefully will reduce the impact of future rail car shortages.

### FINANCIAL

Capital expenditure projects during 1974 were scaled down somewhat from those originally planned, in keeping with the unfavourable economic situation in the industry. Total expenditures on new plant and equipment and on forest access roads amounted to \$894,000; fixed asset disposals, including the divestment of the operations of Bal Crete and Interior Block Manufacturing, totalled \$419,000. Projects completed during the year included a new administrative office building, automated plywood equipment designed to reduce costs and upgrade the product, and various other items geared toward modernizing facilities and increasing efficiency.

During 1974, the authorized limit of the operating bank loan was increased by \$1,200,000, and working capital declined by \$1,021,000. However, long term debt was reduced by \$732,000 during 1974 and at



year end only \$1,155,000 of the term bank loan was being utilized.

## DIVIDENDS

In respect to dividends, the directors established a new policy during 1974 and accordingly declared a regular dividend of \$.10 per share and an extraordinary dividend of \$.15 per share, both paid in May 1974. After a review in September 1974 of the unfavourable short term market outlook, and in view of the Company's unsatisfactory earnings position at that time, the directors decided that it would be prudent to omit the regular November 1974 dividend. The directors have recently considered the payment of a dividend in May 1975 and have again concluded that it would be advisable not to declare a dividend at this time. However, the directors are hopeful that conditions will permit the resumption of regular dividend payments in the relatively near future.

## OUTLOOK FOR 1975

Despite some improvement in the sales volumes of lumber and plywood during the past few months, the market demand for these products has not yet strengthened enough to permit satisfactory operating levels. However, wood product prices have increased slightly from the very low returns of late 1974 owing in part to the optimism generated in the housing industry by recent declines in mortgage interest rates. The outlook over the balance of 1975 is for a long and gradual recovery in lumber and plywood markets which will likely extend well into 1976.

Although the above market outlook gives reason for some optimism, there are a number of factors which could have a negative effect on the Company's return to profitability. The forthcoming negotiations with the International Woodworkers of America are expected to be extremely difficult unless unreasonable initial contract demands are moderated to realistic levels compatible with the international competitiveness of British Columbia's forest products industry. Continued rapid rates of inflation will have the dual impact of accelerating production cost increases and prompting a return to high mortgage rates. Regarding transportation, there is a possibility of further rail car shortages, although the impact of such a development will be softened by the availability of Balco's



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DIRECTORS' REPORT TO  
THE SHAREHOLDERS (cont.)

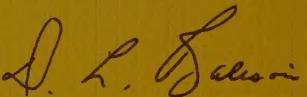
leased rail cars. All in all, 1975 is expected to be a difficult year, although the directors are optimistic that the Company's earnings performance will improve over that experienced in 1974.

Over the longer term, the outlook for the lumber and plywood industry is favourable, however, and with this in mind work is continuing on improving and upgrading the Company's manufacturing facilities. Although the 1975 capital expenditure program is relatively modest at about \$550,000, it contains several projects which will improve lumber recovery and reduce manufacturing costs. Of this amount, approximately \$242,000 is currently committed. In addition, planning is actively underway regarding major changes to both lumber and plywood manufacturing facilities.

Finally, I would like to take this opportunity to extend to each of our 370 employees our appreciation for their cooperation during the past year. Similarly,

I would like to thank our shareholders for their continued confidence over the recent trying period.

On behalf of the board,



D.L. Balison,  
President



## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Balco Industries Ltd. and subsidiary companies as at November 30, 1974 and the consolidated statements of earnings, retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at November 30, 1974 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

**RUDD, GOOLD & ELLIOTT**

Chartered Accountants

Kamloops, B.C.

February 12, 1975

**CONSOLIDATED STATEMENT OF EARNINGS**

for the YEAR ended NOVEMBER 30, 1974

	1974	1973
<b>SALES . . . . .</b>	<b>\$14,792,274</b>	<b>\$19,360,342</b>
<b>COSTS AND EXPENSES</b>		
Cost of sales . . . . .	13,788,253	13,979,403
Depreciation and amortization . . . . .	646,088	639,139
Administration and other expenses . . . . .	790,399	1,085,078
Interest — on current debt . . . . .	81,462	21,144
— on long-term debt . . . . .	187,205	269,453
	<b>15,493,407</b>	<b>15,994,217</b>
<b>EARNINGS (LOSS) FROM OPERATIONS . . . . .</b>	<b>( 701,133)</b>	<b>3,366,125</b>
<b>EQUITY IN NET EARNINGS OF 50% OWNED COMPANY . . . . .</b>	<b>4,111</b>	<b>70,940</b>
<b>EARNINGS (LOSS) BEFORE INCOME TAXES &amp; MINORITY INTEREST . . . . .</b>	<b>( 697,022)</b>	<b>3,437,065</b>
Provision for income taxes — current . . . . .	( 491,029)	1,287,553
— deferred . . . . .	218,453	276,600
<b>EARNINGS (LOSS) BEFORE MINORITY INTEREST . . . . .</b>	<b>( 424,446)</b>	<b>1,872,912</b>
<b>INTEREST OF MINORITY SHAREHOLDERS IN EARNINGS OF SUBSIDIARY . . . . .</b>		<b>13,034</b>
<b>EARNINGS (LOSS) . . . . .</b>	<b>(\$ 424,446)</b>	<b>\$ 1,859,878</b>
<b>EARNINGS (LOSS) PER SHARE — Note 2 . . . . .</b>	<b>(\$ .42)</b>	<b>\$ 1.85</b>

**CONSOLIDATED STATEMENT**

**OF RETAINED EARNINGS**

for the YEAR ended NOVEMBER 30, 1974

	1974	1973
<b>BALANCE AT BEGINNING OF YEAR . . . . .</b>	<b>\$ 3,470,025</b>	<b>\$ 1,866,396</b>
<b>EARNINGS (LOSS) . . . . .</b>	<b>( 424,446)</b>	<b>1,859,878</b>
	<b>3,045,579</b>	<b>3,726,274</b>
<b>DIVIDENDS . . . . .</b>	<b>251,500</b>	<b>256,249</b>
<b>BALANCE AT END OF YEAR . . . . .</b>	<b>\$ 2,794,079</b>	<b>\$ 3,470,025</b>

# CONSOLIDATED BALANCE SHEET

as at NOVEMBER 30, 1974

CURRENT ASSETS	1974	1973
Cash . . . . .	\$ 56,686	\$ 308,895
Accounts receivable — Note 4 . . . . .	1,367,121	1,983,443
Income taxes refundable . . . . .	552,660	—
Inventories — Notes 3 & 4 . . . . .	1,739,695	2,726,379
Prepaid expenses and refundable deposits . . . . .	82,006	23,436
	<u>3,798,168</u>	<u>5,042,153</u>
LESS CURRENT LIABILITIES		
Bank indebtedness — Note 4 . . . . .	1,401,356	204,845
Accounts payable . . . . .	1,336,288	2,348,878
Income taxes payable . . . . .	—	327,768
Long-term debt instalments due within one year . . . . .	525,683	605,126
	<u>3,263,327</u>	<u>3,486,617</u>
WORKING CAPITAL . . . . .	<u>534,841</u>	<u>1,555,536</u>
INVESTED CAPITAL		
Mortgages receivable . . . . .	10,418	10,681
Timber deposits and private timber . . . . .	97,712	99,355
Property, plant & equipment — Note 5 . . . . .	4,846,261	5,016,733
Investment in affiliated company — Note 6 . . . . .	286,061	315,950
Deferred charges less amortization — Note 7 . . . . .	135,624	129,350
	<u>5,376,076</u>	<u>5,572,069</u>
LESS LONG-TERM LIABILITIES		
Debentures and mortgages payable — Note 8 . . . . .	964,421	1,696,344
Deferred income taxes . . . . .	845,750	627,297
Minority interest in subsidiary company . . . . .	—	27,272
	<u>1,810,171</u>	<u>2,350,913</u>
NET INVESTED CAPITAL . . . . .	<u>3,565,905</u>	<u>3,221,156</u>
SHAREHOLDERS' EQUITY . . . . .	<u>\$4,100,746</u>	<u>\$4,776,692</u>
REPRESENTED BY:		
Common shares without par value — Note 9		
Authorized 2,000,000 shares		
Issued & fully paid 1,006,000 shares . . . . .	\$1,290,000	\$1,290,000
Retained earnings . . . . .	2,794,079	3,470,025
Contributed surplus . . . . .	16,667	16,667
SHAREHOLDERS' EQUITY . . . . .	<u>\$4,100,746</u>	<u>\$4,776,692</u>

APPROVED ON BEHALF OF THE BOARD

J. R. Lampitt III

S. L. Wilson

Director

Director

BALCO INDUSTRIES LTD. & SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF  
CHANGES IN FINANCIAL POSITION**  
for the YEAR ended NOVEMBER 30, 1974

	1974	1973
<b>SOURCE OF WORKING CAPITAL</b>		
Earnings after adjusting for items not involving working capital . . . . .	\$ 435,984	\$2,759,274
Proceeds from disposal of assets . . . . .	418,689	32,971
Assumption of long-term debt . . . . .	—	1,837,356
Dividends from affiliated company . . . . .	34,000	37,500
Other sources of working capital . . . . .	<u>1,906</u>	<u>5,418</u>
	<u>890,579</u>	<u>4,672,519</u>
<b>APPLICATION OF WORKING CAPITAL</b> . . . . .		
Investment in plant and equipment . . . . .	861,078	1,880,854
Investment in forest access roads . . . . .	33,227	194,508
Payments on long-term debt . . . . .	731,923	1,369,742
Purchase of interest in subsidiary company net of working capital . . . . .	27,272	148,924
Payment of dividends . . . . .	251,500	256,249
Other applications of working capital . . . . .	<u>6,274</u>	<u>2,923</u>
	<u>1,911,274</u>	<u>3,853,200</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b> . . . . .	<u>(1,020,695)</u>	<u>819,319</u>
<b>WORKING CAPITAL AT BEGINNING OF YEAR</b> . . . . .	<u>1,555,536</u>	<u>736,217</u>
<b>WORKING CAPITAL AT END OF YEAR</b> . . . . .	<u>\$ 534,841</u>	<u>\$1,555,536</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1974

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Principles of Consolidation

The consolidated financial statements include the accounts of Balco Industries Ltd. and its subsidiaries, all wholly-owned: Active - Waymark Services Ltd. Inactive - Balco Building Supplies Ltd., Bal Crete Construction Materials Ltd., Interior Block Manufacturing (1964) Ltd., and Mutual Building Supplies Ltd. The investment in Pacific Overland Timber Ltd., a 50% owned company, is accounted for on the equity basis.

#### b) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined by a weighted average cost method.

#### c) Property, Plant and Equipment

Property, plant and equipment includes cost of major replacements and betterments. Maintenance, repairs and minor replacements are charged against income as incurred.

#### d) Depreciation and Amortization

Depreciation of property and equipment is provided on a straight line basis at rates varying from 5% to 20%. The application of these rates for the year ended November 30, 1974 results in a composite rate of 7.48%. The rate for each class of property is based on estimated economic life.

Logging roads are amortized as timber is harvested at rates determined with reference to volumes of timber estimated to be removed over such facilities.

#### e) Deferred Charges

Certain forestry and reforestation costs are deferred each year and amortized at varying rates averaging 35¢ per cunit. This is the rate allowed by the Province of B.C. as a reduction of stumpage charges for providing forest management and for reforesting of Timber Harvesting Licences.

#### f) Deferred Income Taxes

Deferred income taxes are provided to recognize the effect of timing differences between accounting and taxable income.

### 2. FULLY DILUTED EARNINGS (LOSS) PER SHARE

The exercise of share purchase warrants outstanding at November 30, 1974 would not have a dilutive effect.

### 3. INVENTORIES

	1974	1973
Logs . . . . .	\$ 405,000	\$ 940,247
Lumber . . . . .	1,004,793	1,138,760
Veneer . . . . .	61,882	47,848
Plywood . . . . .	92,653	157,426
Fuel, oil, parts and supplies . . . . .	175,367	163,695
Building products for resale . . . . .	—	278,403
	<u>\$1,739,695</u>	<u>\$2,726,379</u>

### 4. BANK INDEBTEDNESS

Bank indebtedness is secured by a general assignment of accounts receivable and by inventories.

### 5. PROPERTY, PLANT & EQUIPMENT

	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land . . . . .	\$ 292,652	\$ —	\$ 292,652
Plant & Equipment . . . . .	6,122,063	1,756,698	4,365,365
Roads . . . . .	990,539	802,295	188,244
	<u>\$7,405,254</u>	<u>\$2,558,993</u>	<u>\$4,846,261</u>

**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS (cont.)**  
NOVEMBER 30, 1974

**6. INVESTMENT IN AFFILIATED COMPANY**

The Company holds 50% equity in Pacific Overland Timber Ltd. The Company's share of earnings was \$4,111 in 1974 and \$70,940 in 1973. The investment is reflected on the balance sheet on an equity basis, and the difference between the cost and the underlying equity at the date of acquisition of \$179,038 is included in the investment account.

**7. DEFERRED CHARGES**

Reproduction expenditures . . . . .	\$ 9,453
Forestry and reforestation expenditures . . . . .	115,926
Prepaid equipment rentals . . . . .	10,245
	<u>\$ 135,624</u>

**8. DEBENTURES AND MORTGAGES PAYABLE**

	Principal payments due within one year	Total
1st Mortgage on service centre payable in monthly instalments of \$1,232 including interest at 8½% p.a., maturing in September 1979 . . . . .	\$ 9,364	\$ 67,989
Term Bank Loan secured by a demand debenture having a fixed charge over real property and a floating charge over other assets payable by arrangement in quarterly instalments of \$110,000 with interest at 1½% over prime bank rate . . . . .	440,000	1,155,000
Chattel Mortgage secured by certain plywood equipment payable in quarterly instalments of \$19,080 at an interest rate not to exceed 8½% p.a. . . . .	76,319	267,115
	<u>\$ 525,683</u>	<u>\$1,490,104</u>
Principal payments due within one year . . . . .		<u>525,683</u>
		<u>\$ 964,421</u>

**9. CAPITAL STOCK**

The company has outstanding 15,000 share purchase warrants giving the holders the right to purchase two common shares for each warrant. These may be exercised from April 1, 1972 to April 1, 1976 inclusive, upon payment of \$12.25 per warrant.

**10. REMUNERATION TO DIRECTORS AND SENIOR OFFICERS**

Remuneration to directors and senior officers (as defined by the B.C. Companies Act) of the company in their capacities as directors, officers and employees of the company in the current fiscal period was \$161,569 (1973 — \$272,390) including \$52,916 to directors, of which \$7,900 was directors' fees.

**11. COMMITMENTS & CONTINGENT LIABILITIES**

The company has entered into agreements to lease equipment for varying terms expiring up to 1976 and rentals under these leases for the year under review amounted to \$204,864. Total commitment under these leases at November 30, 1974 is \$322,105 of which \$163,464 is payable during the next year.

The company is committed by contract to plant additions totalling \$242,300.

The company has given an unlimited guarantee of an affiliated company's bank loan which at November 30, 1974 totalled \$95,000.



